ANNUAL REPORT

1954

CASTLE & COOKE, LIMITED

CASTLE & COOKE, LIMITED

HONOLULU, HAWAII

DIRECTORS

J. BALLARD ATHERTON	P. K. McLEAN
E. E. BLACK	J. H. MIDKIFF
A. G. BUDGE	GEO. G. MONTGOMERY
H. K. L. CASTLE	A. F. STUBENBERG
S. N. CASTLE	HENRY A. WHITE
C. J. HENDERSON	H. W. B. WHITE

OFFICERS

A. G. BUDGE	President
H. K. L. CASTLE	Vice-President
C. J. HENDERSON	Vice-President
MALCOLM MacNAUGHTON	Vice-President
FREDERICK SIMPICH, JR.	Vice-President and Secretary
W. M. BUSH	Treasurer
L. J. HOUGHTON	Assistant Treasurer
HOWARD HUBBARD	Assistant Treasurer
J. C. KELLEY	Assistant Treasurer
HENRY B. CLARK, JR.	Assistant Secretary
L. F. DEACON	Assistant Secretary
W. M. HALE, JR.	Assistant Secretary
H. M. RICHARDS	Assistant Secretary

J. F. MURPHY	Director, Industrial Relations
W. R. NORWOOD	Director, Public Relations

AUDITOR

YOUNG, LAMBERTON & PEARSON

STOCK TRANSFER AGENTS

Hawaiian Trust Co., Ltd.	Honolulu
Wells Fargo Bank	San Francisco

REGISTRARS

Bishop Trust Co., Ltd.	Honolulu
American Trust Co.	San Francisco

CASTLE & COOKE, LIMITED

P. O. BOX 2990

HONOLULU 2, HAWAII, U.S.A.

SAN FRANCISCO OFFICE
215 MARKET STREET

TELEGRAPHIC ADDRESS
"CASTLECOOK"

April 13, 1955

Enclosed is a copy of the Castle & Cooke annual report for 1954. This account of our company's operations is being distributed to persons in the community who we think may be interested. Your comments will be welcome.

A G Budge

President

REPORT OF THE PRESIDENT

To the Stockholders of Castle & Cooke, Limited:

Of all the material needs of the United States, food is one of the few commodities that will be in surplus over the next 25 years. Food production is one of the few businesses on the American scene that is not growing and prospering. Food items are among the few products experiencing price declines in a period of national prosperity. This situation is of particular significance to Hawaii and to us because food production is the backbone of the Territorial economy and a principal interest of Castle & Cooke. The three foods of primary concern to us are sugar, pineapple, and tuna. In varying degree, each faces a market where prices are depressed, supplies are abundant, and sellers are marketing on a distressed basis.

As a consequence, the earnings of Castle & Cooke are adversely affected, but more important, the need for diversification of our interests is emphasized. This is probably not a temporary condition. There are any number of sugar-producing areas able and eager to serve the American market at prices below those needed by our plantations to return even a modest profit. Fruits and juices, especially orange juice, move into the market place in increasing quantity at the expense of our pineapple sales. Tuna packers are faced not only by severe competition among themselves but by foreign production of both frozen and canned tuna. The picture is complicated by the declining prices and increasing supply of other protein foods.

Labor and shipping costs will always put Hawaii at a disadvantage in food production where surpluses exist. Diversification into non-food lines is essential if we are to grow with the rest of American industry. In light of these problems, research looking toward industrial diversification assumes added importance and urgency. It is encouraging in this connection to note that industrial research efforts are gaining support throughout the community.

INVESTMENTS AND INCOME

At times satisfaction is found in the ability of the management of the associated companies to earn profits or cut losses in the face of adversity. The past year was such a time. Hawaiian Pineapple Company was able to maintain a modest dividend. Both Ewa and Waialua paid satisfactory dividends. Shipping interests were profitable. Had it not been for the necessity to write down inventories at Hawaiian Tuna Packers, Castle & Cooke would have reported 1954 earnings comparable to those of 1953. Because of the inventory losses at Tuna Packers the earnings for the year were $1,087,154 as compared with $1,267,694 in 1953. They were sufficient, however, to permit payment of the same dividend—$1.80 a share.

While not actively in the market, it has been the policy of the directors in recent years to purchase shares of the company's stock when large blocks are made available. Accordingly the number of shares held in the treasury increased from 47,680 to 62,785 by the close of the year.

The remainder of this report is devoted to the operations of Castle & Cooke and its associated companies. A card is enclosed for use by stockholders desiring copies of the reports of such of the associated companies as publish them.

FOOD PRODUCTION

SUGAR

The C and H return on sugar declined from $123.36 in 1953 to $119.40 in 1954. This drop, coupled with higher labor costs and a reduction in the return on molasses from $13.33 per ton to $10.78, resulted in lowered profits on the three plantations associated with Castle & Cooke. Sugar prices might soften further.

We have now had some experience under Republican administration of the Sugar Act and of farm prices generally. There is evidence that the Department of Agriculture plans to ease all farm prices and sees no distinction in the case of sugar despite the fact that, as a result of regulation, sugar has never enjoyed the increases experienced by other commodities.

Throughout the latter half of 1954 there was considerable agitation among domestic producers for an increase in quotas and an improved sugar price. This led, toward the end of the year, to a series of meetings in which Hawaii was represented. These meetings were designed to develop proposed amendments and extension of the Sugar Act, which would otherwise expire in 1956. While all elements of the industry are not agreed on a program, there is general recognition of Hawaii's historic quota position as a domestic producer. It is expected that any new legislation will reflect this recognition.

By-products work on sugar and bagasse showed some promise during the year. A detergent developed by the Sugar Foundation may significantly increase the demand for sugar. The work of the HSPA in determining the best process for making paper from bagasse has not encountered any major obstacles. These are long-term projects, however, and promise no early increase in plantation revenues or profits.

Prolonged negotiations over extension of the agreement with the ILWU were concluded in March, 1954. The resulting contract, which runs for two years, has operated satisfactorily as far as the three plantations we represent are concerned. However, cost increases attributable to increased pension benefits, reduction of the work-week to 40 hours, wage adjustments, etc., have been substantial, and none of the plantations have been able to develop compensating method improvements. Thus, costs per ton of crop continue their upward trend.

Ewa

Profit after taxes at this plantation fell from $633,150 in 1953 to $603,765 in 1954. Dividends were reduced from $2 a share to $1.80. Toward the end of the year a contract was let for the construction of the second increment of 50 new houses for employes. This long-deferred housing project looks to prompt construction of some 300 new dwellings.

Gradual expansion and replacement of cane-hauling units, which have operated so successfully at Ewa, was begun with the purchase of two International units at a cost of approximately $79,000.

In general, the property is in excellent condition and is operating at peak efficiency.

Kohala

Poor weather and the fallowing of certain high-cost areas led to a reduced crop of 42,059 tons as compared with the 1953 record of 49,925 tons. Profit declined from $322,342 to $141,601. No dividends have been paid since 1947 and none are in prospect. The problems of continuing sugar production at Kohala are exceedingly complex. Ultimately, we hope to find better uses for the lands now in cane. Possibilities now available are unattractive, but experiments with macadamia nuts, passion fruit and pineapple continue.

Waialua

This plantation encountered a number of difficulties in 1954. Quality ratios were poor due to bad weather and the aftermath of the three-month slowdown

and strike in the preceding year. Harvesting and transportation costs were high because of these poor ratios and excessive maintenance costs on the new cane-hauling units. These problems were aggravated by the lower C and H return on sugar over the preceding year. As a result, Waialua's profit was $400,067 as compared with the abnormally low $430,692 in 1953. The prevailing dividend of 60 cents was continued in the hope that economies can be effected. The 1955 crop, however, will be harvested from young cane which is out of cycle, and we cannot expect greatly improved results.

PINEAPPLE

Hawaiian Pineapple Company continued to operate with a small profit in the face of intense competition from mainland fruits, fruit juices, concentrates and new methods of shipping and delivering fresh orange juice directly to retail outlets. The profit for the fiscal year ended May 31, 1954 was $1,877,402 as compared with $3,143,941 in the year previously reported. Dividends were continued at the 80-cent rate. Even this modest showing from sales totalling about $60 million was attained primarily by continuing an austerity program and because of the strength of the Dole label which continues to move the products in volume.

During the year it became evident that no satisfactory arrangements could be concluded with the American Can Company on the price of cans. This item alone represents about one-third of the total material and labor costs going into production of the finished pineapple product. Substantial savings were indicated if the company should manufacture its own cans. In August the directors authorized the borrowing of $4 million of which $3 million was allocated for construction of the company's own can-manufacturing plant at Iwilei. The project is now under way and is expected to be in operation during 1956.

TUNA

The year 1954 started out with real promise. Ample volume for supplying mainland markets had been assured through arrangements for the purchase of frozen fish from Japan, and first-quarter sales were up to expectations. However, the decline in meat and poultry prices which occurred in the late spring of the year, coupled with over-supplies of tuna in the hands of West Coast packers, led to a deterioration in the market before the peak consumption period of the summer months arrived. This condition continued throughout the year and still prevails. The result was that Hawaiian Tuna Packers had an excessive inventory at the end of 1954. While not alarmingly large, the value of this inventory was predicated on high prices for local fish as well as that imported from Japan. To permit sales on a realistic basis in 1955, a write-off was taken on this inventory at the year end. As a result, this company reported a substantial loss for the year. Fish will be purchased in the year ahead only if the offering prices are realistic in terms of prevailing market prices for the finished product.

MACADAMIA NUTS

The planting of the full thousand acres at Keaau was completed some months ahead of schedule. The first nuts were also harvested in 1954. A pilot-plant was erected and ready for operation in advance of the harvest. The small crop was distributed for sample purposes or sold to others for distribution under their label. The 1955 harvest, although somewhat larger, will continue relatively small. It is not expected that any of the product will be available for general sale until late in 1956.

TRANSPORTATION

The volume of freight moving through the Port of Honolulu declined more than eight per cent from 1953 levels, with a consequent depressing effect on gross income from the freight agency and the stevedoring operation. This decline was primarily attributable to a reduction in civilian consumption, notwithstanding the high rate of military spending here and the steady increase in tourist travel.

There were no serious labor problems in the port during 1954, but jurisdictional difficulties on the West Coast slowed cargo movements for the last six weeks of the year. Present prospects are that, barring further labor disorders, volume should be maintained at 1954 levels in the year ahead.

MATSON

Matson continued its forward-looking program to meet future Pacific travel and trade requirements.

The Lurline operated at near-capacity and showed a satisfactory return. In October the company announced a decision to re-enter the Australia-South Pacific passenger service with two new 20-knot Mariner type liners. It is expected these vessels will be ready for service by mid-1956, if satisfactory construction and operating subsidies can be negotiated with the government and assurances of continued operation obtained from labor unions.

The jurisdictional labor dispute on the coast disrupted freighter schedules and accounted in part for the six per cent drop in tonnage to and from the islands. Higher operating costs of the freighter fleet will be partially offset by a surcharge announced shortly after the end of the year.

All of the company's hotel units were placed in top operating condition during the year and the Moana's postwar renovation program was completed at substantial expense. Work on the new Princess Kaiulani hotel progressed, with formal opening scheduled for mid-June.

Matson is continuing vigorous support of tourist development both through the Hawaii Visitors Bureau and the company's own advertising program.

ISTHMIAN

Despite prolonged labor disputes in the port of New York, Isthmian, in its joint service with Matson, continued to serve the Islands effectively to and from the East Coast. Castle & Cooke acts as sub-agent in Hawaii for this company.

NIPPON YUSEN KAISHA

This was the first full calendar year in which we represented the Japanese-owned Nippon Yusen Kaisha Line. Although still small, the volume of this business is growing as consignees and shippers make increasing use of the service.

CASTLE & COOKE TERMINALS

A revision in this company's tariff, effective July 1, 1954, anticipated the decline in freight volume, and financial results were favorable.

Principal ingredients contributing to a profitable operation are successful anticipation of the trends in freight volume and the maintenance of efficiency in the work force. Despite persistent efforts to "make work" on the part of certain elements in the bargaining unit, the majority of employes were cooperative and performed well, with the result that the management was able to maintain efficiency and record another successful year.

MERCHANDISING

A. F. Stubenberg and Hawaiian Equipment Company, our two merchandising subsidiaries, reported a better than break-even year despite increasing competition in the heavy-equipment field. In order to reduce overhead and operating costs, the two firms were merged at the close of 1954 and are now doing business in Honolulu and on Kauai as the Hawaiian Equipment Company and in Hilo as A. F. Stubenberg.

HELEMANO

The results of Helemano improved somewhat in 1954, as this was the first full calendar year in which the resumption of Hawaiian Pineapple Company dividends were reflected in its income. This permitted an increase in the Helemano dividend and some restoration of that portion of surplus which had been employed to pay dividends in 1952 when income from the pineapple company declined sharply.

For some time Helemano has been searching for an opportunity to employ its substantial cash reserves in a fashion consistent with its investment character. Up

to this time no such opportunity has developed. Accordingly, in the past year the directors authorized the purchase of up to 40,000 shares of the company's stock from shareholders at a price not exceeding $18 a share. Following this offer, 30,193 shares were tendered at an average price of $17.92. In addition to the shares tendered, the company has purchased a total of 20,120 shares in the open market at an average price of $16.28.

OTHER INTERESTS

Following is a brief summary covering companies in which Castle & Cooke has an investment but no direct operating interest: Bay & River Navigation Company put into service a new vessel to assist in transporting C & H sugar across San Francisco Bay. Hawaiian Trust Company reported a very successful year. The Home Insurance Company, in spite of rate reductions and increasing competition, enjoyed a fine year. Earnings of the Honolulu Oil Company continued favorable.

AGENCY SERVICES

Last year we reported some illustrations of the services provided by Castle & Cooke to the companies it serves as agent. In addition to the routine duties of accounting, investment, shipment and sale of products, and general executive direction of the operations, each year the agency undertakes special projects of assistance to the various companies we represent.

The Industrial Engineering Department concluded a study on the economics of developing Kawaihae Harbor on the Big Island. This survey was submitted to Army Engineers in Honolulu and Washington and supported by oral representations. The proposed federal project would be of material benefit to Kohala Sugar Company. In addition, it would increase the value of Kohala's fallow lands for use in other crops.

The Land Department concluded the lease and water-sales contract between Helemano Company, Limited, and Waialua Agricultural Company, Limited. It will assure Waialua of its mountain water resources for the next 18 years.

Agency executives participated in negotiating the complicated leases, financing and operating agreements leading to the construction of the new $2,400,000 bulk-sugar plant for the island of Oahu. This facility will serve to store and load Ewa and Waialua sugars.

The Operation Analysis Department continued its study of crops and industries which might profitably be employed in reducing our dependence on sugar and pineapple. Among those getting particular attention in 1954 was passion fruit.

Our public-relations activities during the year were expanded to include sponsorship of a weekly 15-minute television program over KGMB-TV. Entitled "Life of the Land," the program is a filmed report on activities, projects, and special events of community interest. The response to date and audience surveys have been encouraging, indicating that this is an effective means of gaining better public understanding of our company and our affiliates.

STOCKHOLDERS AND EMPLOYES

At the close of the year the number of stockholders had increased from 979 to 1,050, while the number of employes had decreased from 216 to 215. With the end of the Korean war there were three employes on military leave. The officers and directors greatly appreciate the continued cooperation and sincere effort of each member of our organization.

COMMUNITY RELATIONS

There is a growing conviction, shared by the management of Castle & Cooke, that businessmen have not taken the trouble to earn the confidence of employes and the general public. If we are to protect our investments in land and other means of production we must also protect our even greater investment in the system in which we operate and the ideas supporting the conviction that this is the best system. More than time and money is involved. Fundamentally, we must accept the moral responsibility for making that system best—best for employes and the public, best for customers and suppliers, as well as stockholders. Then, having recognized and accepted the responsibility, we should exercise the leadership, social as well as economic, required in its discharge. Finally, we should talk about it.

Business in Hawaii has been far too reticent in securing public understanding of its attitude on social and economic questions. In the year ahead we will continue to emphasize our own public-relations activities and work with other businessmen in promoting economic understanding and social and political development in the community.

AG Budge

INVESTMENTS OF CASTLE & COOKE, LIMITED
AS OF DECEMBER 31, 1954

SUBSIDIARIES:*	Issued Shares	Number of Shares Held	% of Total Issued
Castle & Cooke Terminals, Ltd.	60,000	60,000	100.00
Hawaiian Equipment Co., Ltd.	50,100	50,100	100.00
Hawaiian Tuna Packers, Ltd.	110,000	109,957	99.96

OTHER INVESTMENTS:			
Bay & River Navigation Co.	17,000	2,925	17.21
Ewa Plantation Co.	250,000	52,000	20.80
Hawaiian Pineapple Co., Ltd.	1,492,438	240,000	16.08
Hawaiian Trust Co., Ltd.	83,083	5,492	6.61
Helemano Company, Ltd.	609,375	162,500	26.67
Home Insurance Co. of Hawaii, Ltd.	50,000	20,000	40.00
Honolulu Oil Corporation	1,875,486	80,000	4.27
Kohala Sugar Co.	159,500	155,000	97.18
Matson Navigation Co.	1,500,000	206,207	13.75
Waialua Agricultural Co., Ltd.	609,375	160,000	26.26

*** The financial position and operating results of these companies are consolidated with those of Castle & Cooke, Limited.**

CASTLE & COOKE, LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

AT DECEMBER 31st

	1954		1953	
CURRENT ASSETS				
Cash on Hand and in Banks	$ 2,427,918		$ 2,146,803	
U. S. Government Securities at Cost Less Amortization	1,379,126		2,876,474	
Accounts and Other Receivables	2,039,299		1,702,540	
Inventories:				
Merchandise at Lower of Cost or Market	3,777,135		3,161,331	
Supplies at Cost	156,918		153,233	
Prepaid Expenses	93,307		129,727	
		$ 9,873,703		$10,170,108
DEDUCT CURRENT LIABILITIES:				
Accounts and Other Payables	$ 2,472,464		$ 3,662,330	
Notes Payable	2,750,000		1,450,000	
Provision for Income Taxes	266,889		470,919	
		5,489,353		5,583,249
NET WORKING ASSETS		$ 4,384,350		$ 4,586,859
INVESTMENTS AT BOOK VALUE		10,818,472		10,709,860
LAND AT COST		762,874		869,549
BUILDINGS AND EQUIPMENT (Less Reserve for Depreciation)		2,576,100		2,460,843
OTHER ASSETS—NOTES RECEIVABLE		201,919		214,653
DEFERRED CHARGES		61,120		85,380
		$18,804,835		$18,927,144
DEDUCT:				
Reserves:				
Workmen's Compensation	$ 1,811		$ 3,033	
Contingencies	30,000		30,000	
Minority Interest in Subsidiary	481		606	
		32,292		33,639
TOTAL NET ASSETS IN WHICH CAPITAL WAS INVESTED		**$18,772,543**		**$18,893,505**
SOURCES FROM WHICH ABOVE NET ASSETS WERE OBTAINED:				
Capital Stock—500,000 Shares at $20.00 Par Value	$10,000,000		$10,000,000	
Capital in Excess of Par Value of Stock	710,294		710,390	
Accumulated Earnings Retained and Used in the Business	9,693,897		9,404,501	
	$20,404,191		$20,114,891	
Less: Treasury Stock at Cost	1,631,648	(62,785 Shares)	1,221,386	(47,680 Shares)
TOTAL CAPITAL INVESTED		**$18,772,543**		**$18,893,505**

CASTLE & COOKE, LIMITED

CONSOLIDATED STATEMENT OF OPERATING RESULTS AND ACCUMULATED EARNINGS RETAINED AND USED IN THE BUSINESS

FOR THE YEAR ENDED DECEMBER 31st

	1954		1953	
INCOME:				
Agency Fees	$ 1,357,720		$ 1,563,812	
Gross Margin on Sales of Goods and Services (Subsidiaries)	2,577,987		2,710,464	
Equipment and Other Rentals	514,422		209,725	
Dividends	1,132,221		1,062,596	
Interest	34,283		65,033	
Miscellaneous (Net)	46,373		(13,790)*	
		$ 5,663,006		$ 5,597,840
COSTS:				
Operating Expenses	$ 4,308,963		$ 3,859,227	
Territorial Income, Federal Income and Excess Profits Taxes	266,889		470,919	
		4,575,852		4,330,146
NET INCOME		**$ 1,087,154**		**$ 1,267,694**
ACCUMULATED EARNINGS RETAINED AND USED IN THE BUSINESS—January 1st		**9,404,501**		**8,938,803**
ADD:				
Transfer from Reserve for Bad Debts		....		25,000
		$10,491,655		**$10,231,497**
DEDUCT:				
Dividends Paid		797,758		826,996
ACCUMULATED EARNINGS RETAINED AND USED IN THE BUSINESS—December 31st		**$ 9,693,897**		**$ 9,404,501**

* Parentheses indicate loss.

FINANCIAL NOTE—Unfunded past service and minimum benefit liabilities for retirement plans in effect for 1,245 employes of the company and its subsidiaries amounted to approximately $750,000 at December 31, 1954. The cost of the plans in 1954 was $465,143 of which approximately $85,000 applied to such past service and minimum benefit liabilities.

AUDITOR'S CERTIFICATE

To the Stockholders of
Castle & Cooke, Limited:

We have examined the consolidated statement of financial condition of Castle & Cooke, Limited, and those subsidiaries consolidated as of December 31, 1954, and the consolidated statement of operating results and accumulated earnings retained and used in the business for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying statements of financial condition and operating results and accumulated earnings retained and used in the business present fairly the consolidated financial position of Castle & Cooke, Limited, and those subsidiaries consolidated at December 31, 1954, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

YOUNG, LAMBERTON & PEARSON
Certified Public Accountants

Honolulu, Hawaii
March 22, 1954